THE CULINARY INSTITUTE OF AMERICA

Consolidated Financial Statements

May 31, 2012 and 2011

(With Independent Auditors' Report Thereon)

THE CULINARY INSTITUTE OF AMERICA

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Table of Contents

KPMG LLP
515 Broadway
Albany, NY 12207-2974

Independent Auditors' Report

Board of Trustees
The Culinary Institute of America:

We have audited the accompanying consolidated statements of financial position of The Culinary Institute of America (Institute) as of May 31, 2012 and 2011, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Institute's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Institute's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Culinary Institute of America as of May 31, 2012 and 2011, and the changes in their net assets and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP

September 12, 2012

KPMG LLP is a Delaware limited liability partnership,
the U.S. member firm of KPMG International Cooperative
("KPMG International"), a Swiss entity.

THE CULINARY INSTITUTE OF AMERICA

Consolidated Statements of Financial Position

May 31, 2012 and 2011

Assets		**2012**	**2011**
Cash and cash equivalents	$	6,200,610	3,003,149
Cash held as collateral by swap counterparties (note 7)		5,340,000	900,000
Investments (note 3)		111,388,825	100,659,391
Student accounts receivable, net (note 2)		4,677,443	3,580,531
Other receivables		2,057,258	2,280,293
Inventory		2,398,359	2,289,134
Prepaid expenses and other assets		2,243,478	1,725,094
Contributions receivable, net (note 5)		5,349,572	7,907,200
Long-term loans to students, net (note 2)		2,094,497	2,041,058
Deposits with bond trustees (note 8)		8,872,922	8,312,125
Bond issuance and related costs, net		4,005,428	4,185,540
Land, buildings, and equipment, net (note 6)		189,271,245	189,615,752
Total assets	$	343,899,637	326,499,267

Liabilities and Net Assets			
Liabilities:			
Accounts payable	$	3,242,369	2,671,219
Deferred revenue		18,413,994	16,490,404
Accrued liabilities		7,301,158	6,402,107
Accrued compensated absences		3,890,642	3,758,069
Annuity and life income obligations		—	610,427
Fair value of derivative instruments (note 7)		14,739,495	7,928,867
Bonds and notes payable (note 7)		94,995,000	98,395,000
U.S. Government grants refundable		1,682,991	1,690,880
Total liabilities		144,265,649	137,946,973
Net assets:			
Unrestricted		145,315,169	142,907,016
Temporarily restricted (note 10)		31,168,055	22,613,615
Permanently restricted (note 10)		23,150,764	23,031,663
Total net assets		199,633,988	188,552,294
Total liabilities and net assets	$	343,899,637	326,499,267

See accompanying notes to consolidated financial statements.

THE CULINARY INSTITUTE OF AMERICA

Consolidated Statement of Activities

Year ended May 31, 2012
(with summarized information for the year ended May 31, 2011)

	2012				
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**	**2011 Total**
Operating revenues and gains:					
Tuition and fees	$ 116,211,723	—	—	116,211,723	108,559,959
Less scholarships and awards	(17,264,535)	—	—	(17,264,535)	(19,082,812)
Net tuition	98,947,188	—	—	98,947,188	89,477,147
Contributions for operations (note 5)	4,377,421	338,541	—	4,715,962	3,538,356
Government grants and contracts	849,729	—	—	849,729	989,364
Investment return designated for operations	2,665,216	1,308,425	(888)	3,972,753	3,760,063
Sales and services of educational activities	10,560,909	—	—	10,560,909	10,339,632
Sales and services of auxiliary enterprises	17,862,964	—	—	17,862,964	16,923,677
Other sources	4,537,167	—	—	4,537,167	4,672,343
Net assets released from restrictions	2,744,289	(2,744,289)	—	—	—
Total operating revenues and gains	142,544,883	(1,097,323)	(888)	141,446,672	129,700,582
Operating expenses:					
Instruction	55,680,926	—	—	55,680,926	52,559,859
Academic support	17,975,078	—	—	17,975,078	17,466,842
Student services	12,472,321	—	—	12,472,321	12,395,542
Institutional support	31,056,433	—	—	31,056,433	28,530,388
Auxiliary enterprises	14,153,368	—	—	14,153,368	14,216,633
Total operating expenses	131,338,126	—	—	131,338,126	125,169,264
Increase (decrease) in net assets from operations	11,206,757	(1,097,323)	(888)	10,108,546	4,531,318
Nonoperating activities:					
Contributions for plant and endowment (note 5)	633,767	12,967,678	119,989	13,721,434	12,958,372
Net assets released for plant	2,453,257	(2,453,257)	—	—	—
Investment return, net of amounts designated for current operations	(5,642,553)	(862,658)	—	(6,505,211)	7,595,711
Change in fair value of derivative instruments (note 7)	(6,810,626)	—	—	(6,810,626)	(485,973)
Change in value of gift annuity agreement	567,551	—	—	567,551	—
Cost of debt extinguishment	—	—	—	—	(175,915)
Increase (decrease) in net assets from nonoperating activities	(8,798,604)	9,651,763	119,989	973,148	19,892,195
Increase in net assets	2,408,153	8,554,440	119,101	11,081,694	24,423,513
Net assets at the beginning of the year	142,907,016	22,613,615	23,031,663	188,552,294	164,128,781
Net assets at the end of the year	$ 145,315,169	31,168,055	23,150,764	199,633,988	188,552,294

See accompanying notes to consolidated financial statements.

THE CULINARY INSTITUTE OF AMERICA

Consolidated Statement of Activities

Year ended May 31, 2011

	2011			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**
Operating revenues and gains:				
Tuition and fees	$ 108,559,959	—	—	108,559,959
Less scholarships and awards	(19,082,812)	—	—	(19,082,812)
Net tuition	89,477,147	—	—	89,477,147
Contributions for operations (note 5)	3,301,973	236,383	—	3,538,356
Government grants and contracts	989,364	—	—	989,364
Investment return designated for current operations	2,563,954	1,194,820	1,289	3,760,063
Sales and services of educational activities	10,339,632	—	—	10,339,632
Sales and services of auxiliary enterprises	16,923,677	—	—	16,923,677
Other sources	4,672,343	—	—	4,672,343
Net assets released from restrictions	1,656,524	(1,656,524)	—	—
Total operating revenues and gains	129,924,614	(225,321)	1,289	129,700,582
Operating expenses:				
Instruction	52,559,859	—	—	52,559,859
Academic support	17,466,842	—	—	17,466,842
Student services	12,395,542	—	—	12,395,542
Institutional support	28,530,388	—	—	28,530,388
Auxiliary enterprises	14,216,633	—	—	14,216,633
Total operating expenses	125,169,264	—	—	125,169,264
Increase (decrease) in net assets from operations	4,755,350	(225,321)	1,289	4,531,318
Nonoperating activities:				
Contributions for plant and endowment (note 5)	777,527	12,174,621	6,224	12,958,372
Net assets released for plant	4,363,245	(4,363,245)	—	—
Investment return, net of amounts designated for current operations	5,428,791	2,166,920	—	7,595,711
Change in fair value of derivative instruments (note 7)	(485,973)	—	—	(485,973)
Cost of debt extinguishment	(175,915)	—	—	(175,915)
Increase in net assets from nonoperating activities	9,907,675	9,978,296	6,224	19,892,195
Change in net assets before net asset reclassification of endowment funds for adoption of ASC 958-205	14,663,025	9,752,975	7,513	24,423,513
Net asset reclassification of endowment funds for adoption of ASC 958-205 (note 4)	(259,273)	259,273	—	—
Increase in net assets	14,403,752	10,012,248	7,513	24,423,513
Net assets at the beginning of the year	128,503,264	12,601,367	23,024,150	164,128,781
Net assets at the end of the year	$ 142,907,016	22,613,615	23,031,663	188,552,294

See accompanying notes to consolidated financial statements.

THE CULINARY INSTITUTE OF AMERICA

Consolidated Statements of Cash Flows

Years ended May 31, 2012 and 2011

	2012	2011
Cash flows from operating activities:		
Change in net assets	$ 11,081,694	24,423,513
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	7,989,078	7,796,779
Net realized and unrealized losses (gains) on investments and deposits with bond trustees	4,019,286	(10,346,770)
Equipment donations	(423,660)	(442,044)
Change in fair value of derivative instruments	6,810,628	485,973
Contributions restricted for long-term investment	(13,721,434)	(12,958,374)
Change in operating assets and liabilities, that provide (use) cash:		
Student accounts receivable, net	(1,096,912)	(869,737)
Other receivables	223,035	(442,439)
Inventory	(109,225)	106,054
Prepaid expenses and other assets	(518,384)	382,768
Contributions receivable, net	2,557,628	(1,065,991)
Accounts payable, accrued liabilities and compensated absences	1,602,774	680,536
Annuity and life income obligations	(610,427)	(86,001)
Deferred revenue	1,923,590	991,394
Net cash provided by operating activities	19,727,671	8,655,661
Cash flows from investing activities:		
Purchases of land, buildings, and equipment	(7,040,799)	(8,787,680)
Increase in long-term loans to students	(53,439)	(69,165)
Proceeds from sales and maturities of investments	20,764,616	12,097,103
Purchases of investments	(35,526,624)	(24,704,222)
Net cash used in investing activities	(21,856,246)	(21,463,964)
Cash flows from financing activities:		
Repayments of principal of indebtedness	(3,400,000)	(3,305,000)
Cash held as collateral by swap counterparties	(4,440,000)	(900,000)
Change in deposits with bond trustees	(547,509)	(522,655)
Net change in U.S. Government grants refundable	(7,889)	32,814
Contributions restricted for long-term investment	13,721,434	12,958,374
Net cash provided by financing activities	5,326,036	8,263,533
Increase (decrease) in cash and cash equivalents	3,197,461	(4,544,770)
Cash and cash equivalents at beginning of year	3,003,149	7,547,919
Cash and cash equivalents at end of year	$ 6,200,610	3,003,149
Supplemental data:		
Interest paid	$ 3,215,704	3,481,020
Gifts-in-kind	1,580,717	1,149,568

See accompanying notes to consolidated financial statements.

(1) The Institute

The Culinary Institute of America (Institute) has been a leader in culinary education since 1946. The Institute has three domestic campuses, located on the East and West coasts of the United States of America in Hyde Park, NY and St. Helena, CA (Greystone), respectively, as well as a campus in San Antonio, TX. The Institute also has an international campus located in Singapore that is operated through The Culinary Institute of America Singapore, Ltd., a wholly owned subsidiary of the Institute.

At its Hyde Park campus, the Institute offers associate's degrees, in either culinary arts or baking and pastry arts, and bachelor's degrees in culinary arts management, or baking and pastry arts management. At its Greystone campus, the Institute offers either culinary arts or baking and pastry associate's degrees. At its San Antonio campus, the Institute offers an associate in applied science (AAS) degree in culinary arts. At both the Greystone and San Antonio campuses, credit bearing certificate programs are also offered. In addition, the Institute offers continuing education programs at all of its campuses. At the Singapore campus, the Institute has a collaboration agreement with the Singapore Institute of Technology for the culinary education of undergraduate degree students. In addition, the Institute operates nine public restaurants, five at the Hyde Park campus, two at the Greystone campus, and two at the San Antonio campus.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

The Institute's consolidated financial statements have been prepared on the accrual basis of accounting. Net assets and revenues, expenses, gains, and losses are classified based on the existence, or absence of donor-imposed restrictions. The net assets of the Institute are classified as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by the board of trustees or may otherwise be limited by contractual agreements with outside parties.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that expire by the passage of time or can be fulfilled by actions pursuant to the stipulations.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Institute. Generally, the donors of these assets permit the Institute to use all or part of the income earned on related investments for general or specific purposes.

The Institute reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. It is the Institute's policy to record temporarily restricted contributions received and expended in the same accounting period as unrestricted.

Nonoperating activities include contributions to be used for facilities and equipment, or contributions for the endowment fund. Nonoperating activities also includes investment return net of amounts designated for current operations (see note 3), as well as gains or losses resulting from nonrecurring financing activities.

(b) Principles of Consolidation

The accompanying consolidated financial statements include the accounts of The Culinary Institute of America and its majority owned subsidiaries (collectively, the Institute). All significant intercompany balances and transactions have been eliminated in consolidation.

(c) Cash and Cash Equivalents

The Institute considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents, unless they are part of long-term investment funds. Cash and cash equivalents include money market accounts with an initial term of three months or less.

(d) Revenue Recognition and Receivables

Students are billed prior to the start of each semester. The related net revenue is deferred and recognized when the educational services are rendered. The Institute extends credit, primarily to students, in the form of notes and accounts receivable for educational expenses. Student accounts receivable do not bear interest, but long-term loans to students bear interest at rates averaging 5%.

The receivables are recorded at their current unpaid principal balance and associated interest income, if applicable, is accrued based on the principal amount outstanding and applicable interest rates. Allowances for doubtful accounts are recorded representing the amounts that, in the opinion of management of the Institute, are necessary to account for probable losses related to the receivables. These allowances are determined based upon numerous considerations, including economic conditions, the specific composition of the receivable balance, as well as trends of delinquencies and write-offs. On a periodic basis, these factors are considered and the allowances for doubtful accounts are adjusted accordingly, with a corresponding adjustment to the provision for allowance for doubtful accounts.

Reserves have been provided for accounts receivable estimated to be uncollectible at May 31, 2012 and 2011 of $2,352,403 and $2,156,000, respectively.

Reserves have been provided for long-term loans to students estimated to be uncollectible at May 31, 2012 and 2011 of $369,372 and $315,748, respectively.

Contributions, including unconditional pledges, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Unconditional pledges, net of an allowance for uncollectible amounts, are reported at their estimated net present values, and are classified as either permanently restricted or temporarily restricted. The allowance for uncollectible contributions is estimated based upon management's judgment and includes factors such as prior collection history.

Reserves have been provided for contributions receivable estimated to be uncollectible at May 31, 2012 and 2011 of $393,089 and $570,939, respectively.

(e) Investments

Investments are recorded at fair value. The Institute reports the fair value of publicly traded equity, debt and other securities, such as mutual funds, based on quoted market prices or the share values reported by the funds as of the last business day of the fiscal year. Nonmarketable securities include shares or units in alternative investment funds such as private equity and limited partnerships, which are valued using current estimates of fair value obtained from the investment manager in the absence of readily determinable public market values. Such valuations generally reflect discounts for liquidity and consider variables such as financial performance of investments, including comparison of comparable companies' earnings multiples, cash flow analysis, recent sales prices of investments, and other pertinent information. Because of the inherent uncertainty of valuation for these investments, the investment manager's estimate may differ from the values that would have been used had a ready market existed.

The Institute utilizes the net asset value (NAV) reported by each of the alternative investment funds as a practical expedient for determining the fair value of the investment. These investments are redeemable at NAV under the original terms of the subscription agreements and operations of the underlying funds. However, it is possible that these redemption rights may be restricted or eliminated by the funds in the future in accordance with the underlying fund agreements. Due to the nature of the investments held by these funds, changes in market conditions and the economic environment may significantly impact the NAV of the funds and, consequently, the fair value of the Institute's interests in the funds. Furthermore, changes to the liquidity provisions of the funds may significantly impact the fair value of the Institute's interest in the funds.

Investment return includes interest and dividends, realized gains and losses, and the change in unrealized appreciation (depreciation) on the associated investments. The average cost of investment securities sold is used to determine the basis for computing realized gains or losses, and the Institute accounts for investment sales and purchases on a trade date basis.

(f) Inventory

Inventory primarily represents restaurant operating supplies and food and beverage and are stated at the lower of cost, determined principally on the weighted average cost method, or market.

(g) Land, Buildings, and Equipment

Land, buildings, and equipment are recorded at cost or, in the case of gifts, at appraised value at date of the gift.

Interest costs incurred during construction are capitalized, net of interest earned on construction funds. There was no capitalized interest during fiscal year ended May 31, 2012.

(Continued)

Depreciation is recorded using the straight-line method with estimated useful lives used in the calculation of depreciation by major category of assets are as follows:

Buildings and building improvements	50 years
Furniture and equipment	7 years
Computer equipment	5 years

In June 2011, the Institute entered into a long-term ground lease with a component of the Collegiate Housing Foundation (CHF), a national not-for-profit organization, for the construction of three separate townhouses to be utilized for a 161-bed student housing facility. Pursuant to this 40-year agreement, the development, construction and financing of the facility is the exclusive responsibility of the CHF-CIA, LLC, the component of CHF. The facility is owned by CHF-CIA, LLC, a separate 501(c)(3) entity, and financed through tax-exempt bonds issued by the Dutchess County Local Development Corporation. The Institute does not pay nor is it responsible for the debt. When the financing is paid in full, the ownership interest in the facility may be conveyed to the Institute. Accordingly, the assets, related long-term debt and associated results of operations of CHF-CIA, LLC have been properly excluded from the Institute's consolidated financial statements.

(h) Bond Issuance Costs

Costs incurred for issuance of bonds are capitalized and amortized over the life of the related debt.

(i) Derivative Instruments and Hedging Activities

Derivative instruments are recognized in the consolidated financial statements and measured at fair value regardless of the purpose or intent for holding them. The Institute currently only has interest rate swaps that are being adjusted to fair value, based upon information provided by financial institutions, through net assets.

(j) Taxation

The Institute has a tax determination letter dated February 22, 1973, from the Internal Revenue Service stating that it qualifies under the provisions of Section 501(c)(3) of the Internal Revenue Code and is generally exempt from Federal income taxes under Section 501(a) of the Internal Revenue Code. The Institute believes it has taken no significant uncertain tax positions.

(k) Program Services

Program services include expenses for Instruction, Academic support, Student services, and Auxiliary enterprises. Total program service expenses for the years ended May 31, 2012 and 2011 were $100,281,693 and $96,638,876, respectively.

(l) Commitments and Contingencies

Liabilities for loss contingencies arising from claims, assessments, litigation, and other sources are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated. Legal costs incurred in connection with loss contingencies are expensed as incurred.

The Institute recognizes a liability for the fair value of conditional asset retirement obligations if their fair values can be reasonably estimated. The Institute has identified a specific legal obligation related to an environmental remediation matter as a conditional asset retirement obligation. The liability associated with this obligation cannot be reasonably estimated due to the fact that a settlement date cannot be determined. Management does not believe that this item is material to the Institute's consolidated financial statements.

(m) Risks and Uncertainties

The Institute may invest in various types of investment securities. Investment securities are exposed to various risks, such as interest rate, market, and credit risks. Major U.S. and foreign equity and fixed income indices have experienced volatility and, in some cases, significant declines. Management is monitoring investment market conditions and the impact such decline may have on the Institute's investment portfolio. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position.

(n) Management Estimates

The preparation of consolidated financial statements in accordance with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Significant items subject to such estimates and assumptions include the carrying amount of land, buildings, and equipment, the valuation of derivative instruments, valuation allowances for receivables, and the valuation of certain investments. Actual results could differ from those estimates.

(o) Fair Value

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and cash equivalents, investments, student accounts receivable, other receivables, deposits with trustees, accounts payable – The carrying amounts approximate fair value because of the short-term maturity of these instruments or they have been otherwise recorded at their estimated fair value.

Long-term loans to students – Determination of the fair value cannot be made as these notes are comprised of federally sponsored student loans that bear interest rates and repayment terms, and are subject to significant restrictions on their transfer and disposition.

Bonds and notes payable – The fair value of long-term debt is based on quoted market prices for similar issues. The fair value of the Institute's long-term debt is approximately $95,385,000 at May 31, 2012.

Interest rate swaps – The interest rate swap agreements are recorded at fair value within the accompanying consolidated financial statements based on dealer quotes of the estimated settlement amounts required of the Institute if the agreement was terminated, taking into consideration current interest rates. The interest rate swaps are categorized as Level 2 in the fair value hierarchy.

(3) Investments

The investment objective of the Institute is to invest its assets in a prudent manner to achieve a long-term rate of return sufficient to fund a portion of its spending and to increase investment value after inflation. The Institute's investment strategy incorporates a diversified asset allocation approach that maintains, within defined limits, exposure to domestic and international equities, fixed income, real estate, and private equity markets. The majority of the Institute's investments are managed in a pooled fund that consists primarily of endowment assets.

Fair value represents the price that would be received upon the sale of an asset or paid upon the transfer of a liability in an orderly transaction between market participants as of the measurement date. Financial instruments measured and reported at fair value are classified and disclosed in one of the following categories:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Institute has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level I that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which a fair measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety. A majority of the investments classified as Level 2 and 3 have been valued using net asset value provided by the fund manager as the practical expedient and the determination of the level within the fair value hierarchy is based upon the ability to liquidate at or near the balance sheet date.

The Institute's investments of May 31, 2012 are summarized in the following table by their fair value hierarchy classification:

	May 31, 2012	Level 1	Level 2	Level 3	Redemption frequency	Days notice
Investments:						
Time deposits and short-term funds	$ 182,111	182,111	—	—	Daily	1 – 3
Equity securities:						
Large cap equity	15,477,378	5,179,102	10,298,276	—	Daily-Monthly	1 – 30
Small/Mid cap equity	6,500,589	5,243,131	1,257,458	—	Daily	1 – 3
International equity	2,583,719	—	2,583,719	—	Daily-Quarterly	1 – 90
Commingled equity and debt funds	36,575,825	36,488,728	87,097	—	Daily	1 – 3
U.S. government debt securities	14,197,408	14,197,408	—	—	Daily	1 – 3
Corporate debt securities	11,513,093	11,513,093	—	—	Daily	1 – 3
Mortgage backed securities	601,494	601,494	—	—	Daily	1 – 3
Private equity and limited partnerships	22,657,208	—	12,643,038	10,014,170	Quarterly-NA	90 – NA
Land and other	1,100,000	—	1,100,000	—	NA	NA
Total investments	$ 111,388,825	73,405,067	27,969,588	10,014,170		

The Institute's investments of May 31, 2011 are summarized in the following table by their fair value hierarchy classification:

	May 31, 2011	Level 1	Level 2	Level 3	Redemption frequency	Days notice
Investments:						
Time deposits and short-term funds	$ 10,259,443	10,259,443	—	—	Daily	1 – 3
Equity securities:						
Large cap equity	16,256,777	5,178,623	11,078,154	—	Daily-Monthly	1 – 30
Small/Mid cap equity	7,107,701	5,543,845	1,563,856	—	Daily	1 – 3
International equity	9,720,076	—	9,720,076	—	Daily-Quarterly	1 – 90
Commingled equity and debt funds	19,563,680	19,476,943	86,737	—	Daily	1 – 3
U.S. government debt securities	2,104,304	2,104,304	—	—	Daily	1 – 3
Corporate debt securities	7,159,112	7,159,112	—	—	Daily	1 – 3
Mortgage backed securities	822,910	822,910	—	—	Daily	1 – 3
Private equity and limited partnerships	26,565,388	—	16,874,526	9,690,862	Quarterly-NA	90 – NA
Land and other	1,100,000	—	1,100,000	—	NA	NA
Total investments	$ 100,659,391	50,545,180	40,423,349	9,690,862		

The following table presents the Institute's activity for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended May 31, 2012 and 2011:

		Private equity and limited partnerships	
		2012	**2011**
Beginning of year balance	$	9,690,862	4,502,115
Transfer in		—	4,071,511
Purchases		575,000	600,000
Total realized and unrealized gains		129,810	517,236
Sales and settlements		(381,502)	—
End of year balance	$	10,014,170	9,690,862

There were no transfers between Level 1 and Level 2 investments during the fiscal year ended May 31, 2012. Additionally, there were no transfers between Level 2 and Level 3 investments during the fiscal years ended May 31, 2012.

The following schedule summarizes the investment return and its classification in the accompanying consolidated statements of activities:

		2012	**2011**
Interest income and dividends	$	1,593,230	1,229,645
Net realized and unrealized gains and (losses)		(3,954,866)	10,301,649
Directly paid managed investment fees		(170,822)	(175,520)
Total return on investments		(2,532,458)	11,355,774
Investment return designated for current operations		(3,972,753)	(3,760,063)
Investment return, net of amounts designated for current operations	$	(6,505,211)	7,595,711

Liquidity

The investments fair value as of May 31, 2012 are summarized below by redemption period:

Investments redemption period:		
Daily	$	78,284,228
Monthly		9,260,292
Quarterly		12,239,482
Semi-annual		3,776,963
Lock up until liquidated		7,827,860
Total	$	111,388,825

The limitations and restrictions on the Institute's ability to redeem or sell Level 3 investments vary by investment and range from required notice periods (generally 30 to 180 days after initial lock-up periods) for certain limited partnership and hedge funds, to specified terms at inception (generally 10 years) associated with private equity and venture capital interests. Based upon the terms and conditions in effect at May 31, 2012, the expirations of redemption lock-up periods are summarized in the table below:

Fiscal year:		
2013	$	3,776,963
2017 and thereafter		6,237,207
Total	$	10,014,170

Under the terms of certain limited partnership agreements, the Institute is obligated periodically to advance additional funding for certain funds that the Institute is invested in. At May 31, 2012, the Institute had capital commitments of $2,188,000 for which calls had not been exercised. Such commitments generally have fixed expiration dates or other termination dates. The Institute maintains sufficient liquidity in its investment portfolio to cover such commitments.

(4) Endowment Funds

The Institute's endowment consists of funds established for a variety of purposes, including both donor restricted endowment funds and funds designated by the Institute to function as endowments (Board designated).

(a) Return Objectives and Risk Parameters

The Institute has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Institute must hold in perpetuity or for a donor-specified period as well as board-designated funds. The primary investment objective of the management of the endowment fund is to maintain and grow the fund's real value by generating average annual real returns that meet or exceed the spending rate, after inflation, management fees, and administrative costs. Consistent with this goal, the Board of Trustees and the Investment Committee intend that the endowment fund be managed with an intention to maximize total returns consistent with prudent levels of risk, and reduce portfolio risk through asset allocation and diversification.

(b) Strategies Employed for Achieving Objects

To satisfy its long-term rate-of-return objectives, the Institute relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Investment Committee is responsible for establishing an asset allocation policy. The asset allocation policy is designed to attempt to achieve diversity among capital markets and within capital markets, by investment discipline and management style. The Investment Committee designs a policy portfolio in light of the endowment's needs for liquidity, preservation of purchasing power, and risk tolerance.

The Institute targets a diversified asset allocation that places emphasis on investments in domestic and international equities, fixed income, private equity, and hedge funds strategies to achieve its long-term return objectives within prudent risk constraints. The Investment Committee reviews the policy portfolio asset allocation, exposures, and risk profile on an ongoing basis.

(c) Spending Policy

The Institute has a policy of appropriating for distribution each year a percentage of its endowment fund based on the fund's average fair value over the prior 12 quarters. The spending rate was 5.0% for both the years ended May 31, 2012 and 2011. In establishing this policy, the Institute considered the long-term expected return on its endowment. Accordingly, over the long term, the Institute expects the current spending policy to allow its endowment to grow at an average of 2.0% real growth plus the rate of inflation (as measured by the Consumer Price Index). This is consistent with the Institute's objective to maintain the purchasing power of the endowment assets held as well as to provide additional growth through new gifts and investment return.

In establishing these policies, the Institute considered the expected return on its endowment and its programming needs. Accordingly, the Institute expects the current spending policy to allow its endowment to maintain its purchasing power and to provide a predictable and stable source of revenue to the annual operating budget. Additional real growth will be provided through new gifts, any excess investment return, or additions by the Board of Trustees.

The following is a summary of the Institute's endowment net asset composition by type of fund as of May 31, 2012 and 2011:

	2012			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**
Donor restricted	$ (3,107,654)	19,276,714	23,088,797	39,257,857
Board designated (quasi)	60,897,250	—	—	60,897,250
	$ 57,789,596	19,276,714	23,088,797	100,155,107

	2011			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**
Donor restricted	$ (2,004,481)	11,186,689	22,811,552	31,993,760
Board designated (quasi)	61,099,541	—	—	61,099,541
	$ 59,095,060	11,186,689	22,811,552	93,093,301

During fiscal year 2012, the Institute's management determined that certain endowment balances comprising its permanently restricted fund, as of May 31, 2012, had market values less than their historical corpus values. Aggregate shortfalls amounted to $(3,107,654) and are accounted for in the unrestricted fund. Permanent endowment corpuses are separately maintained in the Permanent Fund. Endowment earnings shortfalls are covered by investments held in unrestricted net assets.

The reconciliation of permanently restricted endowment net assets to permanently restricted net assets at May 31, 2012 and 2011 is as follows:

		2012	2011
Permanent endowment investment balance	$	23,088,797	22,811,552
Permanent endowment pledge receivable		61,967	220,111
Permanently restricted net assets	$	23,150,764	23,031,663

The following is a summary of the components of the return of the endowment pool and changes in endowment net assets for the years ended May 31, 2012 and 2011:

		2012			2011		
		Unrestricted	Temporarily restricted	Permanently restricted	Unrestricted	Temporarily restricted	Permanently restricted
Endowment net assets, beginning of year	$	59,095,060	11,186,689	22,811,552	48,490,741	1,791,266	22,620,863
Dividends and interest		990,104	454,712	—	844,586	325,141	1,289
Net realized and unrealized gains/losses		(2,409,976)	(1,103,994)	(888)	8,013,074	3,059,500	—
Contributions and Pledge payments		1,464,434	9,203,911	278,133	380,119	8,616,840	189,400
Endowment transfer for operations		(244,421)	(1,570,209)	—	(289,719)	(949,799)	—
Funding transfer for endowment shortfalls		(1,105,605)	1,105,605	—	1,915,532	(1,915,532)	—
Net asset reclassification for ASC 958-205		—	—	—	(259,273)	259,273	—
Endowment net assets, end of year	$	57,789,596	19,276,714	23,088,797	59,095,060	11,186,689	22,811,552

In September 2010, New York State enacted New York Uniform Prudent Management of Institutional Funds Act (NYPMIFA). The Institute has interpreted NYPMIFA as allowing the Institute to spend or accumulate the amount of an endowment fund that the Institute determines is prudent for the uses, benefits, purposes and duration for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument. The Institute has not changed the way permanently restricted net assets are classified as a result of this interpretation and classifies as permanently restricted net assets (a) the original values of gifts donated to permanent endowments, (b) the original values of subsequent gifts to permanent endowments, and (c) accumulations to permanent endowments made in accordance with the directions of the applicable donors' gift instruments at the times the accumulations are added to the funds. Financial Accounting Standards Board Accounting Standards Codification (ASC) 958-205, *Not-for-Profit Entities*, requires the portion of a donor restricted endowment fund that is not classified in permanently restricted net assets to be classified as temporarily restricted net assets until those amounts are appropriated for spending by the Institute's Board of Trustees in a manner consistent with the standard of prudence prescribed by NYPMIFA.

In accordance with NYPMIFA, the Investment Committee considers the following factors in making a determination to appropriate or accumulate endowment funds:

- The duration and preservation of the fund
- The purposes of the Institute and the endowment fund
- General economic conditions
- The expected total return from income and the appreciation of investments
- Other resources of the Institute
- Where appropriate and where circumstances would otherwise warrant, alternatives to expenditure of an endowment fund, giving due consideration to the effect that such alternatives may have on the Institute
- The investment policies of the Institute

As a result of the adoption of ASC 958-205 the Institute reclassified $259,273 during fiscal year ended May 31, 2011 from unrestricted net assets to temporarily restricted net assets.

(5) Contributions and Contributions Receivable

At May 31, 2012 and 2011, contributions receivable estimated to be collected are as follows:

	2012	2011
Less than one year	$ 2,500,851	2,570,328
One to five years	2,049,477	4,902,874
Thereafter	2,415,574	2,446,576
	6,965,902	9,919,778
Less present value discount (5%)	(1,223,241)	(1,441,639)
Less allowance for doubtful receivables	(393,089)	(570,939)
Total	5,349,572	7,907,200

Net contributions include gifts which support both operating and nonoperating activities of the Institute. Operating and nonoperating contributions are comprised of the following:

		2012	2011
Pledge revenue	$	2,856,423	5,025,000
Cash and other gift revenue		13,701,534	11,610,804
Gifts-in-kind		1,580,717	1,149,568
Gross contributions		18,138,674	17,785,372
Receivable write-offs and net change in allowance for doubtful receivables		80,324	(427,959)
Net change in present value adjustment		218,398	(860,684)
Net contributions	$	18,437,396	16,496,729

For the years ended May 31, 2012 and 2011, the Institute's fundraising expense amounted to $2,334,772 and $2,336,810, respectively. These amounts do not include expenses incurred for fundraising events which amounted to $765,039 and $682,554, respectively.

(6) Land, Buildings, and Equipment

Land, buildings, and equipment as of May 31 consists of:

		2012	2011
Land	$	7,373,865	7,373,865
Buildings and building improvements		226,051,963	222,676,116
Furniture and equipment		59,815,282	56,792,505
Construction-in-progress		3,536,987	2,471,152
		296,778,097	289,313,638
Less accumulated depreciation		(107,506,852)	(99,697,886)
Total	$	189,271,245	189,615,752

Depreciation of buildings and building improvements, and furniture and equipment was $7,808,966 and $7,616,665 for the fiscal years ended May 31, 2012 and 2011, respectively.

(7) Bonds Payable

Bonds payable are comprised of the following at May 31, 2012 and 2011:

	Maturity date	Interest rate	Original issue	Outstanding at May 31, 2012	Outstanding at May 31, 2011
Dormitory Authority of the State of New York:					
Revenue Bonds Series 1999 (a)	7/1/28	4.0%-5.375%	$ 20,275,000	12,970,000	13,725,000
Revenue Bonds Series 2004A (b)	7/1/27	2.0%-4.0%	9,760,000	7,405,000	7,720,000
Series 2004B (b)	7/1/16	2.5%-4.0%	9,720,000	4,495,000	5,305,000
Series 2004C (b)	7/1/33	Variable	23,725,000	23,725,000	23,725,000
Revenue Bonds Series 2004D (c)	7/1/34	Variable	19,000,000	16,500,000	16,950,000
Revenue Bonds Series 2006 (d)	7/1/36	Variable	15,125,000	13,725,000	14,025,000
California Statewide Communities Development Authority Revenue Bonds Series 2008 (e)	10/1/38	Variable	18,200,000	16,175,000	16,945,000
				$ 94,995,000	98,395,000

(a) The Series 1999 Bonds are secured by the pledge and assignment to a financial institution (Trustee) of amounts recorded in the Debt Service Reserve Fund (note 8). Additionally, the bonds are secured by pledged tuition revenues (as defined in the loan agreement), a mortgage and security interests in certain fixtures, furnishings, and equipment located therein.

(b) The Series 2004A, Series 2004B and Series 2004C Bonds are secured by the pledge and assignment to a financial institution (Trustee) of amounts recorded in the Debt Service Reserve Fund (note 8). Additionally, the bonds are secured by pledged tuition revenues (as defined in the loan agreement), a mortgage on the new student townhouses and security interests in certain fixtures, furnishings and equipment located therein.

For the Series 2004C Bonds, the Institute entered into an interest rate swap agreement, the effect of which is to modify the interest rate characteristics of the Series 2004C Bonds from a floating to a fixed rate. The interest rate swap agreement requires the Institute to pay a fixed rate of interest (3.359%) and receive variable rates of interest based on fluctuations in the one-month LIBOR rate. The original notional amount of this interest rate swap was $23,725,000 and decreases consistent with the scheduled principal payments on the associated Series 2004C Bonds. The swap agreement matures on July 1, 2033. The fair value of the interest rate swap is $5,566,944 at May 31, 2012.

During fiscal year 2008, the Institute completed a reoffering of the Series 2004C Bonds in order to modify the variable interest rate mode from the Auction Rate Mode to the Weekly Rate Mode, as defined and provided for within the combined Reoffering Circular. Also, the associated bond series have been additionally secured by an irrevocable, transferable direct pay letter of credit issued by TD

(Continued)

Banknorth N.A. under terms of a Reimbursement Agreement dated May 1, 2008 between the Institution and the aforementioned bank. This letter of credit will expire in May of 2015.

(c) The Series 2004D Bonds are secured by the pledge and assignment to a financial institution (Trustee) of amounts recorded in the Debt Service Reserve Fund (note 8). Additionally, the bonds are secured by pledged tuition revenues (as defined in the loan agreement), a mortgage on the new Admissions Building and Anton Parking Plaza and security interests in certain fixtures, furnishings and equipment located therein. For the Series 2004D Bonds, the Institute entered into an interest rate swap agreement, the effect of which is to modify the interest rate characteristics of the Series 2004D Bonds from a floating to a fixed rate. The interest rate swap agreement requires the Institute to pay a fixed rate (3.597%) and receive variable rates of interest based on fluctuations in the one-month LIBOR rate. The original notional amount of this interest rate swap was $14,000,000 and decreases consistent with the scheduled principal payments on the associated Series 2004D Bonds. The swap agreement matures on July 1, 2034. The fair value of the interest swap is $3,872,790 at May 31, 2012.

During fiscal year 2008, the Institute completed a reoffering of the Series 2004D Bonds in order to modify the variable interest rate mode from the Auction Rate Mode to the Weekly Rate Mode, as defined and provided for within the combined Reoffering Circular. Also, the associated bond series have been additionally secured by an irrevocable, transferable direct pay letter of credit issued by TD Banknorth N.A. under terms of a Reimbursement Agreement dated May 1, 2008 between the Institution and the aforementioned bank. This letter of credit will expire in May of 2015.

(d) The Series 2006 Bonds are secured by the pledge and assignment to a financial institution (Trustee) of amounts recorded in the Debt Service Reserve Fund (note 8). Additionally, the bonds are secured by pledged tuition revenues (as defined in the loan agreement), a mortgage on the new townhouses and security interests in certain fixtures, furnishings, and equipment located therein. For the Series 2006 Bonds, the Institute entered into an interest rate swap agreement, the effect of which is to modify the interest rate characteristics of the Series 2006 Bonds from a floating to a fixed rate. The interest rate swap agreement requires the Institute to pay a fixed rate (3.678%) and receive variable rates of interest based on fluctuations in the one-month LIBOR rate. The original notional amount of this interest rate swap was $15,125,000 and decreases consistent with the scheduled principal payments on the associated Series 2006 Bonds. The swap agreement matures on July 1, 2036. The fair value of the interest rate swap is $3,830,379 at May 31, 2012.

During fiscal year 2008, the Institute completed a reoffering of the Series 2006 Bonds in order to modify the variable interest rate mode from the Auction Rate Mode to the Weekly Rate Mode, as defined and provided for within the combined Reoffering Circular. Also, the associated bond series have been additionally secured by an irrevocable, transferable direct pay letter of credit issued by TD Banknorth N.A. under terms of a Reimbursement Agreement dated May 1, 2008 between the Institution and the aforementioned bank. This letter of credit is renewed annually with a current maturity date of May 31, 2015. The fair value of the interest rate swap is $3,830,379 at May 31, 2012.

(e) The Series 2008 Bonds were issued to (1) finance the renovation and equipping of the student residential property and the campus store located at Greystone and (2) refund in full the previously issued California Statewide Communities Development Authority (Series 2005 Bonds).

The are secured by pledged tuition revenues (as defined in the loan agreement) subject to the prior DASNY pledges and a first lien mortgage on the Greystone campus. In connection with the issuance of the Series 2005 Bonds, the Institute entered into an interest rate swap agreement, the effect of which is to modify the interest rate characteristics of the Series 2005 Bonds and subsequently, the refunding portion of the Series 2008 Bonds from a floating to fixed rate. The interest rate swap agreement requires the Institute to pay a fixed rate (3.23%) and receive variable rates of interest based on fluctuations in the one-month LIBOR rate. The original notional amount of this interest rate swap was $14,150,000 and decreases consistent with the scheduled principal payments on the associated Series 2005 Bonds which were refunded by the Series 2008 Bonds. The fair value of the interest rate swap is $1,469,382 at May 31, 2012.

During fiscal year ended May 31, 2011, the Institute completed a remarketing of the Series 2008 Bonds which converted the Bonds from variable rate bonds secured by a bank letter of credit to variable rate bank qualified private placement bonds. The converted Series 2008 Bonds were purchased by TD Bank, NA and are subject to a Continuing Covenants Agreement dated October 29, 2010 between the Institute and the aforementioned bank. The purchase period is for ten years expiring in 2020. The 2005 interest rate swap agreement continues to hedge a portion of the converted Series 2008 Bonds, as the swap was assumed by TD Bank, NA and the rate was modified to 3.28%. The Institute was in compliance with its debt covenants as of May 31, 2012.

Scheduled maturities of bonds payable are summarized as follows:

Year ending May 31:	
2013	$ 3,545,000
2014	3,665,000
2015	3,805,000
2016	3,975,000
2017	4,125,000
Thereafter through 2039	75,880,000
	$ 94,995,000

Total interest expense for the years ended May 31, 2012 and 2011, was $3,368,109 and $3,614,856, respectively.

The fair values of the interest rate swaps are included on the accompanying consolidated statements of financial position and the change in the fair values is reported as appreciation or depreciation in fair value of derivative instruments within the statements of activities. The counterparties to these arrangements are major financial institutions with which the Institute also has other financial relationships. The Institute is exposed to credit loss in the event of nonperformance by the counterparties. However, the Institute does not anticipate nonperformance by the counterparties.

Further, in accordance with collateral requirements set forth in the swap agreements, the Institute deposited $5,340,000 and $900,000 with the counterparties at May 31, 2012 and 2011 respectively.

Credit Facility

The Institute has two unsecured lines of credit totaling $6.0 million. At May 31, 2012 and 2011, there were no outstanding borrowings under this line. The interest rate fluctuates from time to time based on changes in the LIBOR interest rates.

(8) Deposits with Bond Trustees

Funds on deposit with bond trustees, primarily representing investments in U.S. Treasury obligations at fair value, relate to the Series 1999, Series 2004, Series 2004D, Series 2006, and Series 2008, Bonds as follows:

		Debt Service Fund	Debt Service Reserve Fund	Project Fund	Arbitrage Fund	Total
Series 1999	$	1,001,315	1,459,950	—	15,570	2,476,835
Series 2004		1,275,946	2,478,037	—	—	3,753,983
Series 2004D		441,962	1,060,711	—	—	1,502,673
Series 2006		309,134	806,573	—	—	1,115,707
Series 2008		—	—	23,724	—	23,724
2012 Total	$	3,028,357	5,805,271	23,724	15,570	8,872,922
2011 Total	$	2,937,079	5,335,815	23,723	15,508	8,312,125

The amount in the debt service fund is for the anticipated principle and bond interest payments due July 1, 2012.

At May 31, 2012, the Institute is required to maintain Debt Service Reserve Funds of an aggregate minimum in the amount of $5,708,542 which are available to cover any deficits in the Debt Service Fund.

(9) Retirement Plan

All employees of the Institute who have been employed by the Institute for at least one year and work in excess of 1,000 hours annually are eligible to participate in the Institute's Retirement Defined Contribution Plan with the Teacher's Insurance and Annuity Association, College Retirement Equities Fund (TIAA/CREF). Under this plan, the Institute makes annual contributions which are immediately vested for the benefit of the participants. For the years ended May 31, 2012 and 2011, the expense amounted to $3,279,193 and $3,264,222, respectively.

The Institute also has a Supplemental Tax Deferred Annuity Plan with TIAA/CREF for employees who want to make additional retirement contributions. There is no pension expense to the Institute for this plan.

(10) Temporarily Restricted and Permanently Restricted Net Assets

Temporarily restricted net assets were available for the following purposes:

		2012	2011
Gifts for operations	$	682,650	1,671,626
Gifts for scholarships		910,700	1,087,845
Gifts for campaign for excellence		3,045,463	2,878,705
Gifts for plant		7,252,528	5,788,750
Term endowment		19,276,714	11,186,689
Total	$	31,168,055	22,613,615

Temporarily restricted net assets included contributions receivable of $5,287,607 and $7,687,086 at May 31, 2012 and 2011, respectively.

Permanently restricted net assets consist entirely of endowment corpus and pledges, with donor stipulations that they be invested in perpetuity for the following purposes:

		2012	2011
Student scholarships	$	8,902,049	8,785,357
Library support		10,111,960	10,109,551
Building maintenance		2,460,355	2,460,355
Operating support		1,676,400	1,676,400
Total	$	23,150,764	23,031,663

(11) Commitment

In January 2008 the Institute and Silver Ventures established a campus located in San Antonio, Texas. The campus was constructed and furnished by Silver Ventures. A “bargain sale” lease agreement of $1 per month has been paid by the Institute since the signing of the original pledge agreement between the Institute and Silver Ventures. In August 2010, the Institute and Silver Ventures signed an amended pledge agreement which included conditional pledge milestone payments totaling $20 million. The first milestone, for $8.5 million, was for the San Antonio campus receiving accreditation for a degree program, was reached in April 2011. The second milestone, for $5 million, was for the campus launch the Latin cuisines certificate program, was received in April 2012. The third milestone, for $5 million, was for the opening of the NAO New Worlds Flavor restaurant, was received in May 2012. There remains $1.5 million as a conditional pledge for one last milestone for the San Antonio campus.

(12) Subsequent Events

The Institute considers events or transactions that occur after the balance sheet date, but before the financial statements are issued, to provide additional evidence relative to certain estimates or to identify matters that require additional disclosure. These consolidated financial statements were issued on September 12, 2012 and subsequent events have been evaluated through that date.